
American Institute of Certified Public Accountants. Technical Information Division

Richard Rikert

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Checklists and Illustrative Financial Statements for Agricultural Cooperatives

A Financial Accounting and Reporting Practice Aid

DECEMBER 1993 EDITION

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

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  Checklists and Illustrative Financial Statements for State and Local Governmental Units
Checklists and Illustrative Financial Statements for Agricultural Cooperatives

A Financial Accounting and Reporting Practice Aid

Edited by
Richard Rikert
Technical Manager, Technical Information Division

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR AGRICULTURAL COOPERATIVES

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

- The checklists and illustrative financial statements have been updated through SAS No. 71, FASB Statement of Financial Accounting Standards No. 115, FASB Interpretation No. 40, FASB Technical Bulletin No. 90-1, AICPA Statement of Position 92-3, and AICPA Audit and Accounting Guide, Audits of Agricultural Producers and Agricultural Cooperatives. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

.02 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.
**Introduction**

.01 There are two basic types of agricultural cooperatives, marketing and supply. Marketing cooperatives market the agricultural products produced by their patrons. Supply cooperatives are cooperatives that supply to their patrons goods and services, such as fertilizer and animal feed, used by the patrons to produce products.

.02 Most agricultural cooperatives are organized as corporations that may or may not issue capital stock. Agricultural cooperatives differ from other corporations in that the net earnings of cooperatives are allocated to patrons (entities which conduct business on a cooperative basis with the cooperative) based on the amount of business done between a cooperative and a patron. This manner of allocating income differs from that of a typical corporation for which the allocation is based on capital stock ownership.

.03 Similar to other corporations presenting financial statements in accordance with generally accepted accounting principles, the basic financial statements for agricultural cooperatives include a Balance Sheet, a Statement of Operations, a Statement of Retained Earnings (in the case of an agricultural cooperative, a Statement of Patrons' Equities), and a Statement of Cash Flows. Marketing cooperatives may also present a Statement of Amounts Due to Patrons.

.04 The equity section of the balance sheet of an agricultural cooperative differs from other corporations in that the principal equity component is retained allocations to patrons (cooperative earnings that are allocated to patrons but retained by the cooperative). Other accounts, such as capital stock and unallocated nonpatronage income, may also appear in the equity section.
Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, and AICPA Statements of Position. Some checklists also include references to FASB Interpretations and the AICPA Audit and Accounting Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used herein is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements," and "in notes" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.
Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:
ARB = AICPA Accounting Research Bulletin
APB = AICPA Accounting Principles Board Opinion
SFAS = AICPA Statement of Financial Accounting Standards
SAS = AICPA Statement on Auditing Standards
FASBI = FASB Financial Accounting Standards Board Interpretation
TB = Technical Bulletin issued by the staff of the FASB 1
AC = Reference to section number in FASB Accounting Standards—Current Text
AU = Reference to section number in AICPA Professional Standards (vol. 1)
AAG = Audit and Accounting Guide, Audits of Agricultural Producers and Agricultural Cooperatives
SOP = AICPA Statement of Position
FASCON = FASB Statement of Financial Accounting Concepts

.03 Checklist Questionnaire

Yes No N/A

General

A. Notes to Financial Statements
1. Does each statement include a general reference that the notes are an integral part of the financial statement presentation?
   [FASCON 1, par. 18]

B. Disclosure of Accounting Policies
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements?
   [APB 22, par. 8 (AC A10.102)]
2. Does disclosure of significant accounting policies encompass important judgments as to the appropriateness of principles concerning recognition of revenue and allocation of asset costs to current and future periods?
   [APB 22, par. 12 (AC A10.105)]
3. Does disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?
   [APB 22, par. 14 (AC A10.107)]

1 The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.
C. Accounting Changes

1. For all changes in accounting principles, are the following disclosures made in the year of change:
   a. Nature of the change?
   b. Justification for the change?
   c. Effect on income before extraordinary items and on net income?
      [APB 20, pars. 17 and 19 (AC A06.113 and .115)]

2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made?
   [APB 20, pars. 19—21 and 25 (AC A06.115—.117 and .121)]

3. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change on income before extraordinary items and net income disclosed for all periods presented?
   [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]

4. For a change in accounting estimate affecting several future periods, is the effect of the change on income before extraordinary items and on net income disclosed in the year of change?
   [APB 20, par. 33 (AC A06.132)]

5. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements?
   b. Effect of its correction on income before extraordinary items and net income?
      [APB 20, pars. 36—37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]

D. Comparative Financial Statements

1. Are comparative statements considered?
   [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]

2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance?
   [ARB 43, Ch. 2A, par. 2 (AC F43.102)]

3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?
   [ARB 43, Ch. 2A, par. 2 (AC F43.102)]

E. Related-Party Transactions

1. For related-party transactions, do disclosures include:
   a. The nature of the relationship(s) involved?
   b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed for each of the periods for which an income statement is presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?
   c. The dollar amounts of transactions for each of the periods for which an income statement is presented and the effects of any change in the method of establishing the terms from that used in the preceding period?
   d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement?
      [SFAS 57, par. 2 (AC R36.102)]
2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of the control could result in operating results or financial position of the reporting enterprise being significantly different from those that would have been obtained if the entity were autonomous?

[SFAS 57, par. 4 (AC R36.104)]

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F. Lessee Leases

1. For capital leases, do disclosures include:
   a. The gross amount of assets recorded by major classes (according to nature or function) as of the date of each balance sheet presented?
   [SFAS 13, par. 16a (AC L10.112a(1))]
   
   b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the next five fiscal years, with appropriate separate deductions therefrom for executory costs and imputed interest necessary to reduce net minimum lease payments to present value?
   [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(2))]
   
   c. The total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented?
   [SFAS 13, par. 16a (AC L10.112a(3))]
   
   d. Total contingent rentals actually incurred for each period for which an income statement is presented?
   [SFAS 13, par. 16a (AC L10.112a(4)), amended by SFAS 29, par. 12]
   
   e. Amount of amortization charged to expense or disclosure that amortization is included in depreciation expense for each period for which an income statement is presented?
   [SFAS 13, par. 16a (AC L10.112a(5))]

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:
   a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the next five fiscal years?
   
   b. The total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?
   [SFAS 13, par. 16b (AC L10.112b)]

3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals?
   [SFAS 13, par. 16c (AC L10.112c)]

4. Do disclosures include a general description of the lessee's leasing arrangements, including, but not limited to, the following:
   a. Basis for determining contingent rentals?
   
   b. Terms of any renewal or purchase options or escalation clauses?
   
   c. Restrictive covenants?
   [SFAS 13, par. 16d (AC L10.112d)]

G. Contingencies and Commitments

1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading?
   [SFAS 5, par. 9 (AC C59.108)]

2. For loss contingencies not accrued, do disclosures indicate:
   a. Nature of the contingency?
   
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?
   [SFAS 5, par. 10 (AC C59.109 and .111)]
3. Are the nature and amount of guarantees disclosed (e.g., guarantees of indebtedness of others, or guarantees to repurchase loans that are sold)? [SFAS 5, par. 12 (AC C59.113)]

4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]

5. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18—19 (AC C59.120)]

H. Financial Instruments

1. For financial instruments with off-balance-sheet risk (except for certain financial instruments specifically exempted by SFAS 105 (AC F25)), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument: 2
   a. The face or contract amount (or notional principal amount if there is no face or contract amount)?
   b. The nature and terms, including, at a minimum, a discussion of:
      (1) The credit and market risk of those instruments?
      (2) The cash requirements of those instruments?
      (3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? [SFAS 105, pars. 14, 15 and 17 (AC F25.112)]

2. For financial instruments with off-balance-sheet risk (except as noted above in Step 1.), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument:
   a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract, and if the collateral or other security, if any, for the amount due proved to be of no value to the entity?
   b. The entity’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]

3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from off-balance-sheet risk or from an individual counterparty or groups of counterparties (except for certain insurance contracts, purchase contracts and pension obligations), include:
   a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?
   b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the entity?

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2 Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial condition, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 (AC F25), “class of financial instrument” refers to those classifications.
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

[SFAS 105, par. 20 (AC F25.115)]

4. For all fiscal years subsequent to the year of transition, are SFAS 105 disclosures included for each year for which a statement of financial condition is presented for comparative purposes?

[SFAS 105, par. 22 (AC F25.101)]

5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, either in the body of the financial statements or in the accompanying notes?

[SFAS 107, par. 10 (AC F25.115c)]

6. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed?

[SFAS 107, par. 10 (AC F25.115c)]

7. If it is not practicable to estimate the fair market value of a financial instrument, are the following disclosed:

a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?

b. The reasons why it is not practicable to estimate the fair value?

[SFAS 107, par. 14 (AC F25.115G)]

I. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date?

[SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 and 561.01—.09 (AU 560.03—.04, .07 and 561.01—.09)]

2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading?

[SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05—.07, .09 and 561.01—.09 (AU 560.05—.07, .09 and 561.01—.09)]

J. Pension Plans (For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe5))

1. If there is a defined benefit plan, do disclosures include:

a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?

[SFAS 87, par. 54a (AC P16.150a)]

b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?

[SFAS 87, par. 54b (AC P16.150b)]

---

3 The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 (AC P16). That net total includes:

a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets).

b. Amortization of the net gain or loss from earlier periods.

c. Amortization of unrecognized prior service cost.

d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16).
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:

(1) The fair value of plan assets?
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?
(3) The amount of unrecognized prior-service cost?
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—.130) (which is the net result of combining the preceding six items)?

[SFAS 87, par. 54c (AC P16.150c)]

d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?

[SFAS 87, par. 54d (AC P16.150d)]
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?

[SFAS 87, par. 54e (AC P16.150e)]
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)?

[SFAS 87, par. 54e (AC P16.150e)]

2. If there is a defined contribution plan, do disclosures include:

a. A description of the plan, including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?

[SFAS 87, par. 65 (AC P16.162)]
b. The amount of cost recognized during the period?

[SFAS 87, par. 66 (AC P16.162)]
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:

(1) Is the substance of the plan to provide a defined benefit?

(2) If answer is "yes", are disclosures required for a defined benefit plan made?

[SFAS 87, par. 66 (AC P16.163)]

3. If there is a settlement or curtailment of a defined benefit pension plan, or termination benefits under such a plan, do disclosures include:

a. A description of the nature of the event(s)?

b. The amount of gain or loss recognized?

[SFAS 88, par. 17 (AC P16.187)]

K. Postretirement Health Care and Life Insurance Benefits (See Exhibit A)

1. If there are one or more defined benefit postretirement plans, do disclosures include:
a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?

b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components? 4

c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:

(1) The fair value of plan assets?

(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?

(3) The amount of unrecognized prior-service cost?

(4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?

(5) The amount of any remaining unrecognized transition obligation or transition asset?

(6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?

d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible charges) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved?

e. The weighted average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?

f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:

(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefits cost?

(2) The accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based on the substantive plan that is the basis for the accounting)?

---

4 The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). That net total includes:

a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).

b. Amortization of unrecognized prior service cost.

c. Amortization of the net gain or loss from earlier periods.

d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106 (AC P40.156)).
g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?  

h. Any alternative amortization method used pursuant to paragraph 53 or 60 of SFAS 106 (AC P40.148 or .155)?

i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?

j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)?  

[SFAS 106, par. 74a—j (AC P40.169a—j)]  

2. If more than one defined benefit postretirement plan exists:

a. Are the disclosures required by Step 1. above aggregated for all of an employer's single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step 1.c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed)?  

[SFAS 106, par. 77 (AC P40.172)]

b. Are plans that primarily provide postretirement health care benefits and plans that primarily provide other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?  

[SFAS 106, par. 78a (AC P40.173)]

c. Are plans inside the U.S. and plans outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?  

[SFAS 106, par. 78b (AC P40.173)]

3. If there is a multiemployer plan, do disclosures include:

a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?

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b. The amount of postretirement benefit cost recognized during the period, if available (otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees)?  

[SFAS 106, par. 82a—b (AC P40.178)]

c. Are the provisions of SFAS 5 (AC C59) applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation, and it is either probable or reasonably possible that:

(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?

---

or

(2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage?  

[SFAS 106, par. 83 (AC P40.179)]

4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures:
a. A description of the plan(s), including employee groups covered, the basis for
determining contributions, and the nature and effect of significant matters
affecting comparability of information for all periods presented?

b. The amount of cost recognized during the period?

L. Postemployment Benefits

1. If an obligation for postemployment benefits is not accured in accordance with
SFAS 5 or 43 because the amount cannot be reasonably estimated, is that fact
disclosed in the financial statements?

M. Futures Contracts

1. If a futures contract is designated a hedge:
   a. Does the item to be hedged expose the enterprise to price (or interest rate)
      risk?
   b. Does the futures contract reduce the exposure to risk and is it designated as a
      hedge?

2. If the futures contract hedges an anticipated transaction:
   a. Are the significant characteristics and expected terms of the anticipated
      transaction identified?
   b. Is it probable that the anticipated transaction will occur?

3. If a futures contract is accounted for as a hedge, does the disclosure include:
   a. The nature of the assets, liabilities, firm commitments, or anticipated
      transactions that are hedged with futures contracts?
   b. The method of accounting for the futures contract, including a description of the
      events or transactions that result in recognition in income of changes in
      value of the futures contracts?

Balance Sheet

A. Cash

1. Is restricted cash appropriately segregated from cash available for current
   operations?

B. Investments in Debt and Equity Securities

1. For debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each
   balance sheet presented:
   a. Aggregate fair value?
   b. Gross unrealized holding gains?
   c. Amortized cost basis?

2. For investments in debt securities classified as available-for-sale or held-to-
maturity, is disclosure made about their contractual maturities as of the date of the
   latest balance sheet presented (maturity information may be combined in
   appropriate groupings)?

C. Receivables

1. Are accounts and notes receivable from officers or employees shown separately
   with appropriate disclosures?
2. If a note is noninterest-bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?  
   b. Does the disclosure include the effective interest rate and face amount of the note?  
   c. Is amortization of discount or premium, except for notes subject to the requirements of SFAS 34, reported as interest in the income statement?  
      [APB 21, par.16 (AC 169.109)]

3. Are allowances for uncollectible receivables shown as deductions from the related receivables?  
   [APB 12, par. 3 (AC V18.102)]

4. Are proceeds from transfer of receivables with recourse disclosed for each period for which an income statement is presented?  
   [SFAS 77, par. 9 (AC R20.109)]

5. Is the following information disclosed, either in the body of the financial statements or in the accompanying notes:
   (Note: SFAS 114 is effective for fiscal years beginning after December 15, 1994, with earlier application encouraged. Previously issued financial statements should not be restated)
   a. As of the date of each balance sheet presented, is the recorded investment in impaired loans and the total allowance for credit losses related to those impaired loans disclosed?  
   b. For each period for which an income statement is presented, is the activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off disclosed?  
   c. Is the income recognition policy for recognizing interest income resulting from periodic changes in the present value of impaired loans disclosed?  
   d. Is the amount of recognized interest income disclosed?  
      [SFAS 114, par. 20 (AC 108.118)]

D. Inventories
1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)?  
   [ARB 43, Ch. 3A, par. 9 (AC I78.120)]

2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed?  
   [ARB 43, Ch. 3A, par. 9 (AC I78.120)]

3. Is the basis for stating inventory amount disclosed (e.g., lower of cost or market or net realizable value)?  
   [ARB 43, Ch. 3A, par. 9 (AC I78.120); SOP 85-3, par. 85]

4. Are valuation allowances for inventory losses shown as a deduction from the related inventory?  
   [APB 12, par. 3 (AC V18.120)]

E. Investments in Other Cooperatives
1. Are such investments carried at cost, adjusted for allocated equities and retains?  
   [AAG, par. 11.13]

F. Property and Equipment
1. Are the balances of major classes of depreciable assets disclosed?  
   [APB 12, par. 5b (AC D40.105b)]

2. Is accumulated depreciation, either by major classes of assets or in total, disclosed?  
   [APB 12, par. 5c (AC D40.105c)]
G. Other Assets and Deferred Charges

1. For intangible assets, are method and period of amortization disclosed?
   [APB 17, pars. 27–31 (AC I60.108–.112)]
   
2. Are debt issue costs reported as deferred charges?
   [APB 21, par. 16 (AC I69.109)]

3. Is the valuation allowance for a particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis?
   [SFAS 109, par. 41 (AC I127.140)]

4. Are the components of the total of all deferred tax assets and valuation allowance recognized in the statement of financial position disclosed?
   [SFAS 109, par. 43b–c (AC I127.142b–c)]

5. For foreclosed assets held for sale:
   a. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, is the deficiency recognized and disclosed as a valuation allowance?
   [SOP 92-3, par. 12]
   
   b. Are changes in the valuation allowance based upon fluctuations in the fair value (less disposal costs) charged or credited to income and disclosed, if material?
   [SOP 92-3, par. 12]

6. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means?
   [SOP 92-3, par. 15]

7. If foreclosed assets originally classified as held-for-sale are to be held for production of income, is the net effect reported in income from continuing operations in the period in which the decision to retain the assets is made?
   [SOP 92-3, par. 16]

8. In the period of transition for the adoption of SOP 92-3, is the nature of change disclosed in the financial statements for the period in which the change is made?
   [SOP 92-3, par. 17]

H. Current Liabilities

1. Do current liabilities include:
   a. Obligations for items that enter the operating cycle?
   b. Collections received in advance of the delivery of goods or performance of services?
   c. Debts that arise from operations directly related to the operating cycle?
   d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short-time period?
   e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance-sheet date, even though liquidation may not be expected within that period?
   [ARB 43, Ch. 3A, pars. 7–8 (AC B05.108–.109); SFAS 78, par. 5 (AC B05.109A and .118)]

2. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing?
   [SFAS 6, pars. 8–14 (AC B05.112–.116); FASBI 8 (AC B05.117 and .138–.139)]

I. Notes Payable and Other Debt

1. Are loan agreement conditions, such as assets pledged as collateral or covenants to reduce debt, maintain working capital, or restrict dividends, disclosed?
   [SFAS 5, pars. 18–19 (AC CS9.120)]
2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10b (AC C32.105b)]

3. If a note is noninterest-bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?
   b. Does the disclosure include the effective interest rate and face amount of the note?
   c. Is amortization of the discount or premium, except for notes subject to the requirements of SFAS 34, reported as interest in the income statement?
   d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]

4. If a short-term obligation is excluded from current liabilities pursuant to SFAS 6, do disclosures include:
   a. General description of the financing agreement?
   b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118); FASBI 8 (AC B05.117); TB 79-3 (AC B05.501—.503)]

J. Other Liabilities and Deferred Credits

1. Are deferred tax assets and liabilities determined for each tax-paying component (an individual entity or group of entities that are consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (AC I27.116)]

2. Are deferred tax assets and liabilities classified as current or noncurrent based on the related asset or liability for financial reporting? [SFAS 109, par. 41 (AC I27.140)]

3. Are deferred tax assets and liabilities not related to an asset or liability for financial reporting classified according to the expected reversal date of the temporary difference pursuant to SFAS 37? [SFAS 109, par. 41 (AC I27.140)]

4. Are the following items offset and presented as a single amount for a particular tax-paying component and within a particular tax-paying jurisdiction:
   a. All current deferred tax liabilities and assets?
   b. All noncurrent deferred tax liabilities and assets? [SFAS 109, par. 42 (AC I27.141)]

5. Are the components of the total of all deferred tax liabilities recognized in the statement of financial position disclosed? [SFAS 109, par. 43a (AC I27.142a)]

6. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 (AC C59) and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106—.107 and .124—.127)]

7. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, pars. 6—7 (AC C44.104 and .108)]

8. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 88, par. 15 (AC P16.185)]
9. Is a liability (unfunded accrued pension cost) recognized if the net periodic pension cost recognized, pursuant to SFAS 87 (AC P16), exceeds amounts the employer contributed to the plan?  
[SFAS 87, par. 35 (AC P16.129)]

10. If the accumulated benefit obligation exceeds the fair value of the pension plan's assets, does the employer recognize, in the balance sheet, a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation?  
[SFAS 87, pars. 36 and 38 (AC P16.130 and .132)]

11. Are claims against a cooperative that have fixed amounts and maturity dates (such as open pools, undistributed earnings, and equities that will be paid to patrons) shown as liabilities?  
[AAC, App. B]

K. Patrons' and Other Equity

1. If there is capital stock outstanding, is the following information disclosed for each class of stock:
   a. Number of shares authorized, issued, and outstanding?  
   [AAG, par. 11.26]
   b. Par or stated value per share?

2. If retained patronage allocations and per-unit retains are appropriately classified as equity, is the following information disclosed:
   a. Face value?
   b. Dividend rate?
   c. Negotiability?
   d. Subordination agreements?
   e. Any revolving or retirement plan?  
   [AAG, par. 11.24]

3. Are separate amounts presented for allocated equities (retained patronage allocations or per-unit retains) and for unallocated equities?  
[AAG, par. 11.27]

Statement of Operations

A. Revenue and Expenses

1. Are separate amounts disclosed for sales, cost of sales (except in those instances where a cooperative does not assign an amount approximating market to unprocessed products received from patrons), and general and administrative expense?  
[SOP 85-3, par. 85]

2. Is the amount of interest cost expended and capitalized disclosed?  
[SFAS 34, par. 21 (AC I67.118)]

3. For deferred compensation agreements, are estimated amounts to be paid properly accrued?  
[SFAS 106, par. 13 (AC C38.101—.102)]

4. Is the amount of net periodic pension cost and its components disclosed?  
[SFAS 87, par. 54b (AC P16.150b)]

5. Are gains (losses) on pension plan settlements or curtailments or termination benefits disclosed?  
[SFAS 88, par. 17 (AC P16.187)]

6. Is depreciation expense for the period(s) and method(s) of computing depreciation disclosed?  
[APB 12, par. 5a (AC D40.105)]

7. Are material events or transactions that are, either unusual in nature or of infrequent occurrence, but not both:
a. Reported as a separate component of net income?  

b. Described and their financial effects disclosed?  

[APB 30, par. 26 (AC 122.101)]

B. Gains and Losses from Investments in Debt and Equity Securities

1. For each period for which an income statement is presented, are the following disclosures made:

   a. The proceeds from sales of available-for-sale securities and gross realized gains and losses from those sales? 

   b. The basis on which cost is determined in computing realized gain or loss (i.e., specified identification, average cost, or other method used)? 

   c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category? 

   d. The change in net unrealized holding gain or loss on available-for-sale securities that is included in the separate component of patrons' equities during the period? 

   e. The change in net unrealized holding gain or loss on trading securities that is included in earnings during the period?  

   [SFAS 115, par. 21 (AC 180.120)]

2. For any sales of or transfers from securities classified as held-to-maturity, is disclosure made of the following for each period for which an income statement is presented:

   a. Amortized cost amount of the sold or transferred security? 

   b. Related realized or unrealized gain or loss? 

   c. The circumstances leading to the decision to sell or transfer the security?  

   [SFAS 115, par. 22 (AC 180.121)]

C. Income Taxes

1. Are the types of significant temporary differences and carryforwards disclosed?  

[SFAS 109, par. 43 (AC 127.142)]

2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or notes thereto:

   a. Current tax expense or benefit? 

   b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)? 

   c. Investment tax credits? 

   d. Government grants (to the extent recognized as a reduction of income tax expense)? 

   e. The benefits of operating loss carryforwards? 

   f. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity? 

   g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? 

   h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?  

   [SFAS 109, par. 45a—h (AC 127.144a—h)]
3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35–39 of SFAS 109 (AC 127.134—.138) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC 127.145)]

4. Is the nature of significant reconciling items disclosed? [SFAS 109, par. 47 (AC 127.146)]

5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC 127.147)]

6. If the entity is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:
   a. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented? [SFAS 109, par. 49a—b (AC 127.148 a—b)]
   b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in Step 6.a. above are presented? [SFAS 109, par. 51]

7. Is the effect of initially applying SFAS 109 reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB 20, paragraph 20), except for initially recognized tax benefits of the type required by SFAS 109 to be excluded from comprehensive income? [SFAS 109, par. 52a—b]

8. When initially presented, do the financial statements for the year SFAS 109 is first adopted disclose the following:
   a. The effect, if any, of adopting SFAS 109 on pretax income from continuing operations (e.g., the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented? [SFAS 109, par. 53a—b]
   b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per-share amounts) for each year for which restated financial statements are presented? [SFAS 109, par. 54a—b]

D. Extraordinary Items

1. Do extraordinary items meet both criteria of (1) an unusual nature and (2) infrequency of occurrence? [APB 30, pars. 19—24 (AC 117.106—.111 and .118)]

2. Are extraordinary items (including applicable income taxes) on the face of the income statement segregated and shown following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC 117.102—.103)]

3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC 117.102)]

4. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC 117.102)]

5. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:
a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?  
   ![Yes/No/N/A](image)

b. Income tax effect in the period of extinguishment?  
   ![Yes/No/N/A](image)

c. Per-share amount of the aggregate gain or loss net of related income tax effect?  
   ![Yes/No/N/A](image)  
   [SFAS 4, pars. 8—10 (AC I17.104 and D14.105—.107)]

6. For an adjustment of an extraordinary item reported in a prior period:
   a. Is the adjustment classified separately as an extraordinary item in the current period?  
      ![Yes/No/N/A](image)
   b. Are the nature, origin, and amount of the item disclosed?  
      ![Yes/No/N/A](image)  
      [SFAS 16, par. 16(c) (AC I17.119)]

Statement of Patrons’ and Other Equity
A. Are changes in allocated equities and unallocated equities presented separately?  
   ![Yes/No/N/A](image)  
   [AAG, par. 11.26]

B. Are changes in other accounts comprising Patrons’ and Other Equity presented separately?  
   ![Yes/No/N/A](image)  
   [AAG, par. 11.26]

Statement of Amounts Due Patrons
A. When presented by marketing cooperatives, does the Statement of Amounts Due Patrons include only current amounts due to patrons?  
   ![Yes/No/N/A](image)  
   [AAG, par. 11.25]

Statement of Cash Flows
A. Is a statement of cash flows presented as a basic financial statement for each period for which an income statement is presented?  
   ![Yes/No/N/A](image)  
   [SFAS 95, par. 3 (AC C25.101)]

B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows?  
   ![Yes/No/N/A](image)  
   [SFAS 95, pars. 27—28 (AC C25.125—.126)]

C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:  
   1. Sales of receivables?  
      ![Yes/No/N/A](image)
   2. Insurance proceeds except those directly related to investing or financing activities?  
      ![Yes/No/N/A](image)
   3. Interest paid to creditors?  
      ![Yes/No/N/A](image)
   4. Payments to suppliers and employees?  
      ![Yes/No/N/A](image)
   5. Payments to governments for duties, fines, and other fees or penalties?  
      ![Yes/No/N/A](image)
   6. Payments to settle lawsuits?  
      ![Yes/No/N/A](image)
   7. Contributions to charities?  
      ![Yes/No/N/A](image)  
      [SFAS 95, pars. 22—23 (AC C25.120—.121)]

D. Are cash receipts and cash payments from investing activities shown separately on the statement of cash flows?  
   ![Yes/No/N/A](image)  
   [SFAS 95, par. 31 (AC C5.129)]

E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:  
   1. Receipts from sales of property or investments?  
      ![Yes/No/N/A](image)
   2. Payments to acquire property or investments?  
      ![Yes/No/N/A](image)  
      [SFAS 95, pars. 16—17 (AC C25.114—.115)]
F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows?  
[SFAS 95, par. 31 (AC C25.129)]

G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:
   1. Proceeds from issuing debt or capital stock?  
   2. Repayments of amounts borrowed?  
   3. Payments to acquire capital stock?  
      [SFAS 95, pars. 19—20 (AC C25.117—.118)]

H. Is the change in cash and cash equivalents shown?  
   [SFAS 95, par. 7 (AC C25.105)]

I. Is the policy for determining which items are treated as cash equivalents disclosed?  
   [SFAS 95, par. 10 (AC C25.108)]

J. Is a reconciliation of net income to net cash flow from operating activities presented, either within the statement of cash flows or in a separate schedule?  
   [SFAS 95, pars. 29—30 (AC C25.127—.128)]

K. Are noncash investing and financing activities summarized in a separate schedule?  
   [SFAS 95, par. 32 (AC C25.134)]
Exhibit A—Postretirement Health Care Benefits

The effective date of SFAS 106 is for fiscal years beginning after December 15, 1992, except for plans outside the United States and for defined benefit plans of employers that (a) are nonpublic entities and (b) sponsor defined benefit postretirement plan(s) with no more than 500 plan participants in the aggregate, in which case the effective date is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. Until such time, the following disclosures remain in effect:

A. Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:
   a. Description of benefits and employee groups covered?
   b. Description of accounting and funding policies?
   c. Cost of benefits recognized during the period?
   d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?

   [SFAS 81, par. 6 (AC P50.102)]
Auditors’ Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:
SAS = AICPA Statement on Auditing Standards
AU = Reference to section number in AICPA Professional Standards (vol. 1)

.03 Checklist Questionnaire

<table>
<thead>
<tr>
<th>1. Does the auditor’s report include:</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>a. A title that includes the word “independent”?</td>
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<td>[SAS 58, par. 8 (AU 508.08)]</td>
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<td>b. Addressee?</td>
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<td>[SAS 58, par. 9 (AU 508.09)]</td>
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<td>c. Identification of financial statements audited?</td>
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<td>[SAS 58, par. 6 (AU 508.06)]</td>
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<td>d. Date (or dual dates) of the report?</td>
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<tr>
<td>[SAS 1, sec. 530 (AU 530); SAS 58, par. 46 (AU 508.46)]</td>
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| 2. If the auditor is not independent, is the appropriate disclaimer expressed regardless of the extent of services provided? |     |    |     |
| [SAS 1, sec. 220 (AU 220)] |     |    |     |

| 3. If an auditor’s standard report is issued, does it conform to paragraph 8 of SAS 58 (AU 508.08)? |     |    |     |

| 4. If the auditor’s opinion is based in part on the report of other auditors: |     |    |     |
| a. Is the reliance and extent of reliance disclosed in the introductory paragraph of the auditor’s report? |     |    |     |
| b. Is reference made in the opinion paragraph of the auditor’s report to the report of the other auditors? |     |    |     |
| [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)] |     |    |     |

| 5. If the financial statements contain a departure from GAAP because compliance with GAAP would make the financial statements misleading, does an explanatory paragraph of the auditor’s report: |     |    |     |
| a. Describe the departure? |     |    |     |
| b. If practicable, describe the effects of the departure? |     |    |     |
| c. Describe the reason why compliance with GAAP would make the financial statements misleading? |     |    |     |
| [SAS 58, pars. 14—15 (AU 508.14—.15)] |     |    |     |

| 6. If the financial statements are affected by an uncertainty as defined in paragraphs 23—26 of SAS 58, does an explanatory paragraph following the opinion paragraph of the auditors’ report: |     |    |     |
| a. Describe the uncertainty? |     |    |     |
| b. Indicate that the outcome of the uncertainty cannot presently be determined? |     |    |     |
| [SAS 58, pars. 31—33 (AU 508.31—.33)] |     |    |     |
7. If substantial doubt exists about an entity’s ability to continue as a going concern, does an explanatory paragraph following the opinion paragraph of the auditor’s report describe the uncertainty and include the terms “substantial doubt” and “going concern”? [SAS 64, par. 1 (AU 341.12)]

8. If the financial statements reflect a change in accounting principles or in the method of their application that has a material effect on comparability, does an explanatory paragraph following the opinion paragraph of the auditor’s report:
   a. Identify the nature of the change? [SAS 58, par. 34—36 (AU 508.34—36)]
   b. Refer to a note to the financial statements that discusses the change in detail? [SAS 58, par. 34—36 (AU 508.34—36)]

9. If an auditor wishes to emphasize a matter regarding the financial statements, is such explanatory information presented in a separate paragraph of the auditor’s report? [SAS 58, par. 37 (AU 508.37)]

10. If the opinion expressed in an updated auditor’s report differs from the opinion previously expressed on prior-period financial statements, does an explanatory paragraph preceding the opinion paragraph disclose:
   a. The date of the auditor’s previous report? [SAS 58, pars. 77—78 (AU 508.77—78)]
   b. The type of opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—78)]
   c. The circumstances or events that caused the auditor to express a different opinion? [SAS 58, pars. 77—78 (AU 508.77—78)]
   d. The auditor’s updated opinion on the financial statements of the prior period is different from the previous opinion on those statements? [SAS 58, pars. 77—78 (AU 508.77—78)]

11. Is a qualified or adverse opinion expressed because:
   a. Financial statements are materially misstated because of errors? [SAS 47, par. 31 (AU 312.31)]
   b. Financial statements include a departure from GAAP relating to uncertainties? [SAS 58, pars. 19—22 (AU 508.19—22)]
   c. Financial statements include a departure from GAAP relating to accounting changes? [SAS 58, pars. 59—66 (AU 508.59—66)]
   d. Financial statements fail to disclose information required by GAAP? [SAS 58, par. 55 (AU 508.55)]
   e. Illegal acts are not properly accounted for or disclosed? [SAS 54, par. 18 (AU 317.18)]
   f. The client represents in the financial statements that related-party transactions are consummated on an arm’s-length basis, and the auditor believes that such representation is unsubstantiated by the client? [SAS 45, par. 12 (AU 334.12)]

12. Is a qualified opinion or disclaimer of opinion expressed because of:
   a. Client’s refusal to provide written representations? [SAS 19, pars. 11—12 (AU 333.11—12)]
   b. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]
   c. Scope limitations mentioned in paragraph 42 of SAS 58? [SAS 58, par. 42 (AU 508.42)]
   d. Inability of the auditor to apply necessary procedures to the unaudited information presented in the notes to the financial statements? [SAS 58, par. 45 (AU 508.45)]
14. If a disclaimer of opinion expressed because of adverse circumstances preclude the auditor from evaluating whether an illegal act occurred?
[SAS 34, par. 19 (AU 317.19)]

15. If a qualified opinion is expressed because of a scope limitation:
   a. Is the reason for the qualification described in an explanatory paragraph preceding the opinion paragraph of the auditor’s report?
      [SAS 58, par. 39 (AU 508.39)]
   b. Is the reason for the qualification referred to in the scope and opinion paragraphs?
      [SAS 58, par. 43 (AU 508.43)]
   c. Does the opinion paragraph include appropriate qualifying language?
      [SAS 58, pars. 39 and 44 (AU 508.39 and .44)]

16. If a disclaimer of opinion is expressed, does a separate paragraph of the auditor’s report indicate the reason for the disclaimer?
[SAS 58, pars. 70—72 (AU 508.70—.72)]

17. If an adverse opinion is expressed:
   a. Does an explanatory paragraph preceding the opinion paragraph of the auditor’s report disclose the reason for the adverse opinion and the effect on the financial statements?
   b. Does the opinion paragraph refer to the explanatory paragraph?
      [SAS 58, pars. 67—69 (AU 508.67—.69)]

18. Does the auditor’s report include appropriate language for the following:
   a. A predecessor auditor’s report is reissued?
      [SAS 58, pars. 80—82 (AU 508.80—.82)]
   b. Other information presented in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements?
      [SAS 8, par. 4 (AU 550.04); SAS 58, par. 111 (AU 508.111)]
   c. The auditor is engaged to report on one basic financial statement and there are no scope limitations?
      [SAS 58, par. 48 (AU 508.48)]
   d. There is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, disclaimer, or the inclusion of an explanatory paragraph on one or more financial statements for one or more periods?
      [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]
   e. Audited and unaudited financial statements are presented in comparative form?
      [SAS 26, pars. 14—17 (AU 504.14—.17)]
19. If the financial statements of a prior period are audited by a predecessor auditor whose report is not presented, does the introductory paragraph of the report of the successor auditor indicate:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The financial statements of the prior period were audited by another auditor?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The date of the report of the predecessor auditor?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. The type of report issued by the predecessor auditor?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. The reasons why the report of the predecessor auditor was not a standard report?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. For restated financial statements, the fact that the predecessor auditor reported on the prior-period financial statements before restatement?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[SAS 64, par. 2 (AU 508.83)]

20. If the financial statements of a prior period, audited by a predecessor auditor whose report is not presented, are restated, does the introductory paragraph of the report of the successor auditor indicate that a predecessor auditor reported on the financial statements of the prior period before restatement?

[SAS 64, par. 2 (AU 508.83)]

21. If, following a pooling-of-interest transaction, an auditor is engaged to report on restated financial statements for one or more prior years when other auditors audited one or more of the entities included in such financial statements, does the auditor's report include explanatory language in accordance with SAS 64, paragraph 3?

[SAS 64, par. 3 (AU 543.16)]

22. Is a piecemeal opinion avoided?

[SAS 58, par. 73 (AU 508.73); SAS 62, par. 14 (AU 623.14)]

23. For special reports, are the provisions of SAS 35 and SAS 62 complied with for the following:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Statements prepared in accordance with a comprehensive basis of accounting other than GAAP?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 62, pars. 2—10 (AU 623.02—.10)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Specified elements, accounts, or items of a financial statement?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 62, pars. 11—18 (AU 623.11—.18); SAS 35 (AU 622)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 62, pars. 19—21 (AU 623.19—.21)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Financial information that requires a prescribed form of auditor's report?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 62, pars. 22—33 (AU 623.22—.33)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Is there a clear distinction between the client's representations and the auditor's representations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 29, par. 20 (AU 551.20)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Does the auditor's report on the accompanying information:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Specifically identify the accompanying information?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) State whether the additional information has been subjected to the auditing procedures applied in auditing the basic financial statements and whether the appropriate expression of disclaimer or opinion is included?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[SAS 29, pars. 6—11 (AU 551.06—.11)]
25. If an auditor-submitted document with accompanying information coexists with a document that includes just the basic financial statements and the auditor's report:
   a. Do the basic financial statements in all coexisting documents consistently include all the information necessary for a fair presentation in conformity with GAAP?  
      [SAS 29, par. 21 (AU 551.21)]
   b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the audit in the auditor's standard (or modified) report?  
      [SAS 29, par. 20 (AU 551.20)]

26. If the document contains interim financial information, is the auditor's report expanded, if required?  
   [SAS 71, pars. 40—44 (AU 722.40—.44)]

27. If a statement that names the auditor and also states that condensed financial statements are derived from audited financial statements is made in a client-prepared document that does not include audited financial statements, and if the client is not a public entity that is required to file complete audited financial statements with a regulatory agency at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure?  
   [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]

28. If reporting on selected financial data that is included in a client-prepared document and that is derived from audited financial statements, does the auditor's report indicate the following:
   a. The auditor has audited and expressed an opinion on the complete financial statements?  
      [SAS 42, par. 9 (AU 552.09)]
   b. The type of opinion expressed?  
      [SAS 42, par. 9 (AU 552.09)]
   c. The specific data on which the auditor is reporting?  
      [SAS 42, par. 9 (AU 552.09)]
   d. Whether, in the auditors' opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it was derived?  
      [SAS 42, par. 9 (AU 552.09)]

29. If the selected financial data for any of the years presented is derived from financial statements that are audited by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data?  
   [SAS 42, par. 9 (AU 552.09)]
Independent Auditor's Report

To the Patrons
Central Supply Cooperative

We have audited the accompanying balance sheets of Central Supply Cooperative as of June 30, 19X2 and 19X1, and the related statements of operations, patrons' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Supply Cooperative as of June 30, 19X2 and 19X1, and the results of its operations, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]
[Date]
## Balance Sheets

### June 30

<table>
<thead>
<tr>
<th>Assets</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,650,000</td>
<td>$2,819,000</td>
</tr>
<tr>
<td>Accounts receivable, less allowance for doubtful accounts of $750,000 and $640,000 (Note 3)</td>
<td>6,573,000</td>
<td>6,298,000</td>
</tr>
<tr>
<td>Inventories (Notes 2 and 3)</td>
<td>15,520,000</td>
<td>14,686,000</td>
</tr>
<tr>
<td>Advances on grain purchases and margin deposits</td>
<td>1,240,000</td>
<td>1,610,000</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>1,195,000</td>
<td>1,306,000</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$27,178,000</td>
<td>$26,719,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investments and other assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Midstate Marketing Cooperative</td>
<td>1,357,000</td>
<td>1,020,000</td>
</tr>
<tr>
<td>Investment in Bank for Cooperatives</td>
<td>1,274,000</td>
<td>1,160,000</td>
</tr>
<tr>
<td>Investment in Farm Fertilizers, Inc.</td>
<td>980,000</td>
<td>908,000</td>
</tr>
<tr>
<td>Other assets</td>
<td>126,000</td>
<td>192,000</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>$3,737,000</td>
<td>$3,280,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property, plant, and equipment (Note 3)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>1,248,000</td>
<td>1,736,000</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>10,753,000</td>
<td>9,726,000</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>20,154,000</td>
<td>17,622,000</td>
</tr>
<tr>
<td>Automobiles and trucks</td>
<td>1,197,000</td>
<td>1,173,000</td>
</tr>
<tr>
<td><strong>Less accumulated depreciation</strong></td>
<td>(10,165,000)</td>
<td>(8,247,000)</td>
</tr>
<tr>
<td><strong>Net property, plant, and equipment</strong></td>
<td>$23,187,000</td>
<td>$22,010,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$54,102,000</td>
<td>$52,009,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Balance Sheets—continued

### Liabilities and Patrons’ Equities

#### Current liabilities
- Notes payable to bank (Note 3) | $7,084,000 | $6,473,000
- Accounts payable and accrued expenses | 10,239,000 | 10,515,000
- Salaries, wages, and related payroll taxes | 2,230,000 | 1,985,000
- Patronage refunds payable | 874,000 | 619,000
- Income taxes | 755,000 | 530,000
- Current portion of long-term debt | 560,000 | 1,230,000

**Total current liabilities** | $21,742,000 | $21,352,000

#### Deferred income taxes (Note 4)

**1,572,000** | **1,354,000**

#### Long-term debt (Note 3)

**8,978,000** | **10,208,000**

#### Commitments and contingencies (Note 5)

#### Patrons’ equities
- Preferred stock, 6% noncumulative, $100 par value
  - Issued and outstanding, 54,840 and 37,380 shares | 5,484,000 | 3,738,000
- Common stock, voting, $100 par value
  - Authorized, 25,000 shares
  - Issued and outstanding 5,070 and 5,020 shares | 507,000 | 502,000
- Allocated equities | 13,650,000 | 13,632,000
- Unallocated equities | 2,214,000 | 1,223,000

**Total patrons’ equities** | **21,855,000** | **19,095,000**

**Total liabilities and patrons’ equities** | **$54,102,000** | **$52,009,000**

The accompanying notes are an integral part of these financial statements.
### Statements of Operations

<table>
<thead>
<tr>
<th></th>
<th>Years Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Net Sales</td>
<td>$110,675,000</td>
</tr>
<tr>
<td>Costs and expenses</td>
<td></td>
</tr>
<tr>
<td>Costs of raw materials, operations, and distribution</td>
<td>98,509,000</td>
</tr>
<tr>
<td>General and administrative expense</td>
<td>3,149,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>2,785,000</td>
</tr>
<tr>
<td></td>
<td>104,443,000</td>
</tr>
<tr>
<td>Margins before income taxes</td>
<td>6,232,000</td>
</tr>
<tr>
<td>Income taxes (Note 4)</td>
<td>650,000</td>
</tr>
<tr>
<td>Net margins</td>
<td>$ 5,582,000</td>
</tr>
<tr>
<td>Net patronage margins to be distributed as follows:</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>874,000</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>1,746,000</td>
</tr>
<tr>
<td>Allocated equities</td>
<td>1,747,000</td>
</tr>
<tr>
<td></td>
<td>4,367,000</td>
</tr>
<tr>
<td>Nonpatronage margins to unallocated equities</td>
<td>1,215,000</td>
</tr>
<tr>
<td></td>
<td>$ 5,582,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### Statements of Patrons' Equities

<table>
<thead>
<tr>
<th></th>
<th>Preferred Stock</th>
<th>Common Stock</th>
<th>Allocated Equities</th>
<th>Unallocated Margins</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, June 30, 19X0</td>
<td>$2,500,000</td>
<td>$500,000</td>
<td>$15,268,000</td>
<td>$793,000</td>
</tr>
<tr>
<td>Patronage margins</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refund of prior years' allocated equities</td>
<td>1,238,000</td>
<td></td>
<td>1,238,000</td>
<td></td>
</tr>
<tr>
<td>Net nonpatronage margins</td>
<td></td>
<td></td>
<td></td>
<td>(2,874,000)</td>
</tr>
<tr>
<td>Preferred stock dividends</td>
<td></td>
<td></td>
<td></td>
<td>580,000</td>
</tr>
<tr>
<td>New memberships, net</td>
<td></td>
<td></td>
<td>2,000</td>
<td>(150,000)</td>
</tr>
<tr>
<td>Balance, June 30, 19X1</td>
<td>3,738,000</td>
<td>502,000</td>
<td>13,632,000</td>
<td>1,223,000</td>
</tr>
<tr>
<td>Patronage margins</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refund of prior years' allocated equities</td>
<td>1,746,000</td>
<td></td>
<td>1,747,000</td>
<td></td>
</tr>
<tr>
<td>Nonpatronage margins</td>
<td></td>
<td></td>
<td></td>
<td>1,215,000</td>
</tr>
<tr>
<td>Preferred stock dividends</td>
<td></td>
<td></td>
<td></td>
<td>(224,000)</td>
</tr>
<tr>
<td>New memberships, net</td>
<td></td>
<td></td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Balance, June 30, 19X2</td>
<td>$5,484,000</td>
<td>$507,000</td>
<td>$13,650,000</td>
<td>$2,214,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
CENTRAL SUPPLY COOPERATIVE

Statements of Cash Flows

<table>
<thead>
<tr>
<th>Years Ended June 30.</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net margins</td>
<td>$ 5,582,000</td>
<td>$ 3,675,000</td>
</tr>
<tr>
<td>Adjustments to reconcile net margins to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,937,000</td>
<td>2,537,000</td>
</tr>
<tr>
<td>Deferred income tax expense</td>
<td>173,000</td>
<td>120,000</td>
</tr>
<tr>
<td><strong>Change in noncash current assets and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(275,000)</td>
<td>(56,000)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(834,000)</td>
<td>129,000</td>
</tr>
<tr>
<td>Advances on grain purchases and margin deposits</td>
<td>370,000</td>
<td>(87,000)</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>110,000</td>
<td>(58,000)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>(275,000)</td>
<td>89,000</td>
</tr>
<tr>
<td>Salaries, wages, and related payroll taxes</td>
<td>245,000</td>
<td>(146,000)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>225,000</td>
<td>(60,000)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$ 8,258,000</td>
<td>$ 6,143,000</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisitions of investments and other assets</td>
<td>(457,000)</td>
<td>(175,000)</td>
</tr>
<tr>
<td>Acquisitions of property, plant and equipment</td>
<td>(4,723,000)</td>
<td>(5,044,000)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>609,000</td>
<td>4,078,000</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(4,571,000)</td>
<td>(1,141,000)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in notes payable to bank</td>
<td>611,000</td>
<td>157,000</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(1,900,000)</td>
<td>(1,175,000)</td>
</tr>
<tr>
<td>Patronage refunds and other equity paid in cash</td>
<td>(2,572,000)</td>
<td>(3,811,000)</td>
</tr>
<tr>
<td>Proceeds from issuance of common stock</td>
<td>5,000</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(3,856,000)</td>
<td>(4,827,000)</td>
</tr>
<tr>
<td><strong>Net change in cash and cash equivalents</strong></td>
<td>(169,000)</td>
<td>175,000</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>2,819,000</td>
<td>2,644,000</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$ 2,650,000</td>
<td>$ 2,819,000</td>
</tr>
</tbody>
</table>

Supplemental disclosure of cash flow data

<table>
<thead>
<tr>
<th>Cash paid during the years for</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest (net of amounts capitalized)</td>
<td>$ 2,919,000</td>
<td>$ 2,733,000</td>
</tr>
<tr>
<td>Income taxes</td>
<td>$ 715,000</td>
<td>$ 428,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
1. Summary of Significant Accounting Policies

General: Central Supply Cooperative is an agricultural cooperative association organized to provide a supply source for members and to market farm products delivered by members.

Cash Equivalents: The Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories: Grain inventories are carried at market. Realized and unrealized gains and losses on futures contracts are credited or charged to current costs of sales.

Sunflower-seed inventory is stated at the lower of cost or market, first-in, first-out method (FIFO). Realized and unrealized gains and losses on soybean-oil futures contracts used to hedge sunflower-seed inventories and unfilled sunflower-seed orders are deferred until the related inventories are sold, but are considered in lower-of-cost-or-market calculations.

The Cooperative hedges its grain and sunflower-seed inventories and unfilled orders for these products to the extent considered practicable for minimizing risk from market price fluctuations. These inventories are not completely hedged, however, due in part to the absence of satisfactory hedging facilities for certain commodities and in part to the cooperative’s appraisal of its exposure from expected price fluctuations.

Supplies and materials are stated at the lower of cost or market, first-in, first-out method (FIFO).

Investments: The investment in Midstate Marketing Cooperative (Midstate) represents equities allocated to the Cooperative by Midstate as of Midstate’s most recent fiscal year end, plus an accrual to the Cooperative’s fiscal year end for anticipated patronage allocations. The accrual is based on the Cooperative’s expected percentage (5 percent in both 19X2 and 19X1) of Midstate’s total patronage applied to Midstate’s interim operating results. Patronage refunds are credited to cost of raw materials, operations, and distribution.

The investment in the Bank for Cooperatives consists of class C stock at cost and the Cooperative’s share of the bank’s allocated surplus. Any patronage refunds received from the bank are credited to interest expense.

The investment in Farm Fertilizers, Inc. (FFI), represents allocated equities for which notification has been received by the Cooperative. The patronage earnings of FFI vary substantially from year to year, and FFI does not make interim operating results available to the Cooperative. Accordingly, patronage allocations for which notification has not been received cannot be reasonably determined. Patronage refunds are credited to cost of raw materials, operations, and distribution.

Property, plant, and equipment: Property, plant, and equipment are stated at cost. Depreciation is computed principally by using the straight-line method over the estimated useful lives of the related depreciable assets. Expenditures for betterments and renewals that extend useful lives are capitalized. Gains and losses on retirements and disposals are included in net margins.

Patrons’ equities: In accordance with its bylaws, the Cooperative allocates patronage margins to its patrons, as determined for income tax purposes, in cash, preferred stock, and certificates of equity in proportions determined by its board of directors.

New members are issued one share of common stock. At any time a member ceases to be active, such shares are redeemed at par value.
**Income taxes**: The Cooperative, as a nonexempt cooperative, is taxed on nonpatronage margins and any patronage margins not paid or allocated to patrons.

2. **Inventories**

A summary of inventories follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 19X2</th>
<th>June 30, 19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
<td>$8,211,000</td>
<td>$8,105,000</td>
</tr>
<tr>
<td>Sunflower seed</td>
<td>3,101,000</td>
<td>3,020,000</td>
</tr>
<tr>
<td>Supplies and materials</td>
<td>4,208,000</td>
<td>3,561,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$15,520,000</strong></td>
<td><strong>$14,686,000</strong></td>
</tr>
</tbody>
</table>

Grain purchased from patrons is included as an element of cost of sales, based on the spot-market price of the grain at date of receipt. The value of grain received from patrons amounted to $16,427,000 and $15,845,000 for the years ended June 30, 19X2 and 19X1, respectively.

3. **Notes Payable to Bank and Long-Term Debt**

Notes payable to the bank consist of short-term loans from the Bank for Cooperatives. A summary of such borrowings during the years ended June 30, 19X2 and 19X1 follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 19X2</th>
<th>June 30, 19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings as of June 30</td>
<td>$7,084,000</td>
<td>$6,473,000</td>
</tr>
<tr>
<td>Average interest rate on year-end borrowings</td>
<td>15.6%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Average borrowings during the year</td>
<td>$8,562,000</td>
<td>$7,679,000</td>
</tr>
<tr>
<td>Average interest rate on borrowings during the year</td>
<td>14.9%</td>
<td>14.2%</td>
</tr>
<tr>
<td>Maximum borrowings during the year</td>
<td>$9,500,000</td>
<td>$8,650,000</td>
</tr>
</tbody>
</table>

Long-term debt consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 19X2</th>
<th>June 30, 19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank for Cooperatives, 12% due in varying installments through 19X8</td>
<td>$6,049,000</td>
<td>$6,367,000</td>
</tr>
<tr>
<td>Commercial bank loans, at prime, 16% at June 30, 19X2 and 14.5% at June 30, 19X1 due in varying installments through 19X9</td>
<td>3,489,000</td>
<td>5,071,000</td>
</tr>
<tr>
<td></td>
<td>9,538,000</td>
<td>11,438,000</td>
</tr>
<tr>
<td>Less current maturities</td>
<td>560,000</td>
<td>1,230,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,978,000</strong></td>
<td><strong>$10,208,000</strong></td>
</tr>
</tbody>
</table>

Aggregate annual principal payments applicable to long-term debt for the five years subsequent to June 30, 19X2 are as follows:
June 30,

<table>
<thead>
<tr>
<th></th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6</th>
<th>19X7</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$560,000</td>
<td>601,000</td>
<td>892,000</td>
<td>1,802,000</td>
<td>2,186,000</td>
<td>3,497,000</td>
<td>$9,538,000</td>
</tr>
</tbody>
</table>

Inventories and accounts receivable are pledged as collateral under the short-term agreements with the Bank for Cooperatives. Property, plant, and equipment with book value of $12 million, along with the investment in the Bank for Cooperatives, are pledged under the long-term agreements with the Bank for Cooperatives and a commercial bank. The long-term agreements require maintenance of $5 million of working capital and agreement with the banks on revolvement of allocated equities and assumption of additional long-term debt. Additionally, the agreements require the cooperative to invest in class C stock of the Bank for Cooperatives in amounts determined by that bank.

4. Income Taxes

Income tax expense for the years ended June 30, 19X2 and 19X1 consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Currently payable</td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$365,000</td>
</tr>
<tr>
<td>State</td>
<td>112,000</td>
</tr>
<tr>
<td>Total currently payable</td>
<td>477,000</td>
</tr>
<tr>
<td>Deferred</td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>139,000</td>
</tr>
<tr>
<td>State</td>
<td>34,000</td>
</tr>
<tr>
<td>Total deferred</td>
<td>173,000</td>
</tr>
<tr>
<td>Total</td>
<td>$650,000</td>
</tr>
</tbody>
</table>

A reconciliation of the statutory tax rate to the effective tax rate follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Statutory rate</td>
<td>34.0%</td>
</tr>
<tr>
<td>Patronage refunds</td>
<td>(28.3)</td>
</tr>
<tr>
<td>State taxes, net of federal benefit</td>
<td>1.3</td>
</tr>
<tr>
<td>Other</td>
<td>3.4</td>
</tr>
<tr>
<td>Effective rate</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

Deferred taxes arise primarily from the use of accelerated depreciation methods for tax purposes.

5. Commitments and Contingencies

The Cooperative has signed agreements to purchase machinery and equipment costing approximately $7 million to modernize its grain-handling facilities. These purchases are to be financed by additional long-term debt with the Bank for Cooperatives.
Independent Auditor's Report

To the Patrons
Midstate Marketing Cooperative

We have audited the accompanying balance sheets of Midstate Marketing Cooperative as of June 30, 19X2 and 19X1, and the related statements of operations, amounts due to patrons, patrons' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midstate Marketing Cooperative as of June 30, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]
[Date]
# MIDSTATE MARKETING COOPERATIVE

## Balance Sheets

### June 30, 19X2 and 19X1

### Assets

#### Current assets

- **Cash and cash equivalents**: $2,890,000
- **Accounts receivable, less allowance for doubtful accounts**:
  - 19X2: $500,000
  - 19X1: $450,000
- **Inventories (Notes 2 and 3)**: $35,050,000
- **Prepaid expenses and other current assets**: $1,170,000

**Total current assets**: $52,230,000

#### Investments and other assets

- **Investment in Bank for Cooperatives**: $6,200,000
- **Trademarks**: $1,600,000
- **Other assets**: $370,000

**Total investments and other assets**: $8,170,000

#### Property, plant, and equipment (Note 3)

- **Land**: $1,130,000
- **Buildings and improvements**: $10,970,000
- **Machines and equipment**: $25,280,000

**Total property, plant, and equipment**: $37,380,000

**Less accumulated depreciation**:

- 19X2: $(13,670,000)
- 19X1: $(12,170,000)

**Net property, plant, and equipment**: $23,710,000

**Total assets**: $84,110,000

### Notes

The accompanying notes are an integral part of these financial statements.
**Liabilities and Patrons' Equities**

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable to bank (Note 3)</td>
<td>$17,480,000</td>
<td>$16,950,000</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>7,790,000</td>
<td>7,350,000</td>
</tr>
<tr>
<td>Salaries, wages, and related payroll taxes</td>
<td>1,560,000</td>
<td>1,080,000</td>
</tr>
<tr>
<td>Due to patrons</td>
<td>10,260,000</td>
<td>8,910,000</td>
</tr>
<tr>
<td>Income taxes</td>
<td>310,000</td>
<td>130,000</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>2,890,000</td>
<td>2,890,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>40,290,000</td>
<td>37,310,000</td>
</tr>
<tr>
<td>Deferred income taxes (Note 4)</td>
<td>2,300,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Long-term debt (Note 3)</td>
<td>13,210,000</td>
<td>16,100,000</td>
</tr>
<tr>
<td><strong>Patrons' equities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated equities</td>
<td>26,360,000</td>
<td>19,710,000</td>
</tr>
<tr>
<td>Unallocated equities</td>
<td>1,950,000</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Total liabilities and patrons' equities</strong></td>
<td>$84,110,000</td>
<td>$75,420,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
MIDSTATE MARKETING COOPERATIVE

Statements of Operations

<table>
<thead>
<tr>
<th>Years Ended June 30,</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$129,630,000</td>
<td>$110,110,000</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales (including proporportionate share of assigned value of patrons' raw products received)</td>
<td>84,630,000</td>
<td>70,200,000</td>
</tr>
<tr>
<td>Selling, general, and administrative expense</td>
<td>19,380,000</td>
<td>18,900,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>5,090,000</td>
<td>4,750,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>109,100,000</td>
<td>93,850,000</td>
</tr>
<tr>
<td>Margins before income taxes</td>
<td>20,530,000</td>
<td>16,260,000</td>
</tr>
<tr>
<td>Income taxes (Note 4)</td>
<td>1,250,000</td>
<td>900,000</td>
</tr>
<tr>
<td>Net margins</td>
<td>$19,280,000</td>
<td>$15,360,000</td>
</tr>
<tr>
<td>Distribution of net margins</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patronage proceeds</td>
<td>17,630,000</td>
<td>14,100,000</td>
</tr>
<tr>
<td>Nonpatronage proceeds</td>
<td>1,650,000</td>
<td>1,260,000</td>
</tr>
<tr>
<td>$19,280,000</td>
<td>$15,360,000</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Statements of Amounts Due to Patrons

<table>
<thead>
<tr>
<th></th>
<th>Years Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Amounts due to patrons at beginning of year</td>
<td>$8,910,000</td>
</tr>
<tr>
<td>Assigned value of patrons' raw products (approximates market at date of receipt)</td>
<td>56,500,000</td>
</tr>
<tr>
<td>Net patronage proceeds</td>
<td>17,630,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>83,040,000</td>
</tr>
<tr>
<td>Less</td>
<td></td>
</tr>
<tr>
<td>Amounts paid to patrons in cash</td>
<td>58,830,000</td>
</tr>
<tr>
<td>Amounts retained as:</td>
<td></td>
</tr>
<tr>
<td>Per-unit retains</td>
<td>5,650,000</td>
</tr>
<tr>
<td>Equity credits</td>
<td>8,300,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>72,780,000</td>
</tr>
<tr>
<td>Amounts due to patrons at end of year</td>
<td>$10,260,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Statements of Patrons’ Equities

<table>
<thead>
<tr>
<th></th>
<th>Equity Credits</th>
<th>Per-Unit Retains</th>
<th>Total</th>
<th>Unallocated Equities (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, June 30, 19X0</td>
<td>$8,730,000</td>
<td>$5,210,000</td>
<td>$13,940,000</td>
<td>$ (960,000)</td>
</tr>
<tr>
<td>Patronage proceeds</td>
<td>7,270,000</td>
<td></td>
<td>7,270,000</td>
<td></td>
</tr>
<tr>
<td>Refund of prior years’ allocated equities</td>
<td>(6,750,000)</td>
<td></td>
<td>(6,750,000)</td>
<td></td>
</tr>
<tr>
<td>Per-unit retains</td>
<td></td>
<td>5,250,000</td>
<td>5,250,000</td>
<td></td>
</tr>
<tr>
<td>Nonpatronage proceeds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 30, 19X1</td>
<td>9,250,000</td>
<td>10,460,000</td>
<td>19,710,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Patronage proceeds</td>
<td>8,300,000</td>
<td></td>
<td>8,300,000</td>
<td></td>
</tr>
<tr>
<td>Refund of prior years’ allocated equities</td>
<td>(7,300,000)</td>
<td></td>
<td>(7,300,000)</td>
<td></td>
</tr>
<tr>
<td>Per-unit retains</td>
<td></td>
<td>5,650,000</td>
<td>5,650,000</td>
<td></td>
</tr>
<tr>
<td>Nonpatronage proceeds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 30, 19X2</td>
<td>$10,250,000</td>
<td>$16,110,000</td>
<td>$26,360,000</td>
<td>$1,950,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net margins</td>
<td>$19,280,000</td>
<td>$15,360,000</td>
</tr>
<tr>
<td>Adjustments to reconcile net margins to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,500,000</td>
<td>3,200,000</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>300,000</td>
<td>160,000</td>
</tr>
<tr>
<td><strong>Change in noncash current assets and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(3,520,000)</td>
<td>650,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>(4,070,000)</td>
<td>(1,100,000)</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>200,000</td>
<td>(250,000)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>440,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Salaries, wages, and related payroll taxes</td>
<td>480,000</td>
<td>(220,000)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>180,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Amounts due to patrons</td>
<td>1,350,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>18,140,000</td>
<td>18,780,000</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment additions</td>
<td>(7,230,000)</td>
<td>(5,440,000)</td>
</tr>
<tr>
<td>Investments and other assets</td>
<td>(1,040,000)</td>
<td>(520,000)</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(8,270,000)</td>
<td>(5,960,000)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(2,890,000)</td>
<td>(2,890,000)</td>
</tr>
<tr>
<td>Increase in notes payable to bank</td>
<td>530,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Per-unit retails</td>
<td>5,650,000</td>
<td>5,250,000</td>
</tr>
<tr>
<td>Patronage distributions</td>
<td>(9,330,000)</td>
<td>(6,830,000)</td>
</tr>
<tr>
<td>Payment of prior years’ retails</td>
<td>(7,300,000)</td>
<td>(6,750,000)</td>
</tr>
<tr>
<td>Net cash used by financing activities</td>
<td>(13,340,000)</td>
<td>(10,220,000)</td>
</tr>
<tr>
<td><strong>Net change in cash and cash equivalents</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3,470,000)</td>
<td>2,600,000</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of year</strong></td>
<td>6,360,000</td>
<td>3,760,000</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$ 2,890,000</td>
<td>$ 6,360,000</td>
</tr>
</tbody>
</table>

**Supplemental disclosure of cash flow data**

Cash paid during the years for:
- Interest (net of amounts capitalized) | $ 5,500,000 | $ 5,250,000 |
- Income taxes                          | $ 1,300,000 | $ 800,000 |

The accompanying notes are an integral part of these financial statements.
1. **Summary of Significant Accounting Policies**

**General:** Midstate Marketing Cooperative is an agricultural cooperative association operating on a pool basis, and it is organized for the purpose of processing and marketing fruits and vegetables delivered by its patrons. Deliveries from nonmember growers may also be accepted on a patronage or nonpatronage basis. Patrons are credited for the assigned amounts (as determined by the board of directors) of raw products delivered. Net proceeds or losses from patronage business are allocated to patrons on the basis of their participation in the total established value of the related pool.

Equity requirements, as determined by the board of directors, are retained from amounts due to patrons and credited to patrons' equity.

Unallocated equities arising from nonpatronage business and certain nonrecurring revenues and expenses, less income taxes, are not allocated to patrons.

**Cash equivalents:** All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

**Inventories:** The Cooperative's inventories are stated at the lower of cost or market using the first-in, first-out method (FIFO). Raw products received from members are included as an element of cost at their assigned amounts.

**Investments:** The investment in the Bank for Cooperatives consists of class C stock at cost and the Cooperative's share of the bank's allocated surplus. Patronage refunds are credited to interest expense.

**Trademarks:** Purchase costs of trademarks are capitalized and amortized over ten years.

**Property, plant, and equipment:** Property, plant, and equipment are stated at cost. Depreciation is computed principally by using the straight-line method over the estimated useful lives of the related depreciable assets. Expenditures for betterments and renewals that extend useful lives are capitalized. Gains and losses on retirements and disposals are included in net proceeds.

**Patrons' equities:** In accordance with its bylaws, the Cooperative allocates patronage proceeds to patrons, as determined for income tax purposes, in cash and equity certificates in proportions determined by its board of directors.

**Income taxes:** The Cooperative, as a nonexempt cooperative, is taxed on nonpatronage proceeds and any patronage proceeds not paid or allocated to patrons.

2. **Inventories**

A summary of inventories follows.

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods</td>
<td>$28,040,000</td>
<td>$22,820,000</td>
</tr>
<tr>
<td>Goods in process</td>
<td>4,320,000</td>
<td>5,560,000</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>2,690,000</td>
<td>2,600,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$35,050,000</td>
<td>$30,980,000</td>
</tr>
</tbody>
</table>

*MIDSTATE MARKETING COOPERATIVE*

Notes to Financial Statements

Years Ended June 30, 19X2 and 19X1
3. Notes Payable to Bank and Long-Term Debt

Notes payable to bank consist of short-term loans from the Bank for Cooperatives. Following is a summary of such borrowings during the years ended June 30, 19X2 and 19X1.

<table>
<thead>
<tr>
<th>June 30,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
<td>19X1</td>
</tr>
<tr>
<td>Borrowings as of June 30</td>
<td>$17,480,000</td>
<td>$16,950,000</td>
</tr>
<tr>
<td>Average interest rate on year-end borrowings</td>
<td>17.5%</td>
<td>13%</td>
</tr>
<tr>
<td>Average borrowings during the year</td>
<td>$19,500,000</td>
<td>$16,500,000</td>
</tr>
<tr>
<td>Average interest rate on borrowings during the year</td>
<td>15.75%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Maximum borrowings during the year</td>
<td>$20,060,000</td>
<td>$25,000,000</td>
</tr>
</tbody>
</table>

Long-term debt consists of notes payable to the Bank for Cooperatives, which bear interest at 12.5 percent. Payments are due in varying installments through 19X9. Aggregate annual principal payments applicable to long-term debt for years subsequent to June 30, 19X2, are as follows.

<table>
<thead>
<tr>
<th>June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>19X3</td>
<td>$ 2,890,000</td>
</tr>
<tr>
<td>19X4</td>
<td>2,890,000</td>
</tr>
<tr>
<td>19X5</td>
<td>2,890,000</td>
</tr>
<tr>
<td>19X6</td>
<td>2,890,000</td>
</tr>
<tr>
<td>19X7</td>
<td>2,270,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2,270,000</td>
</tr>
<tr>
<td>Total</td>
<td>$16,100,000</td>
</tr>
</tbody>
</table>

Essentially all accounts receivable and inventories are pledged as collateral under the short-term agreement.

The long-term notes are secured by property, plant, and equipment with a net book value of $18 million and by the investment in the Bank for Cooperatives.

The debt agreements with the Bank contain a number of restrictive covenants, including limitations on equipment purchases and prior approval of the Bank on revolvement of retained equities.

4. Income Taxes

The provision for income taxes consists of the following:

<table>
<thead>
<tr>
<th>June 30,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
<td>19X1</td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$ 790,000</td>
<td>$ 470,000</td>
</tr>
<tr>
<td>State</td>
<td>160,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Total</td>
<td>950,000</td>
<td>570,000</td>
</tr>
<tr>
<td>Deferred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>250,000</td>
<td>270,000</td>
</tr>
<tr>
<td>State</td>
<td>50,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Total</td>
<td>300,000</td>
<td>330,000</td>
</tr>
<tr>
<td>Total</td>
<td>$1,250,000</td>
<td>$900,000</td>
</tr>
</tbody>
</table>

The income tax provision for each year is disproportionate to the expected statutory income tax expense, principally due to the deduction for distribution of patronage proceeds to patrons.

Deferred taxes arise from differences related primarily to the use of accelerated depreciation methods for tax purposes.
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